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C O N F I D E N T I A L VILNIUS 000300

SIPDIS

STATE FOR EUR/NB AND EB/ENR

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TAGS: [PREL](#) [ECON](#) [ENRG](#) [LH](#) [RS](#)

SUBJECT: LITHUANIA OIL STILL FLOWING, BUT MANY FINGERS
CROSSED

REF: A. VILNIUS 1439

[1](#)B. VILNIUS 1160

[1](#)C. VILNIUS 1521

Classified By: Economic Officer Miguel Rodrigues for reasons 1.4(b) and
(d)

SUMMARY

[1](#)1. (C) Mazeikiu Nafta General Director Nelson English and Vice Minister of Economy Nerijus Eidukevicius told us they are optimistic that Russian crude will continue to flow through the Transneft pipeline to Lithuania's Mazeikiu Nafta refinery through the end of the year, despite press reports to the contrary. English said that the refinery has commitments to receive oil from Russian suppliers other than Yukos at about two-thirds its previous supply level, and noted that Mazeikiu representatives are currently in Moscow negotiating to secure the remainder. Neither English nor Eidukevicius would speculate about the likelihood that Yukos may sell its 54% holding in Mazeikiu Nafta and relinquish management of the refinery, but local sources mention TNK-BP as a likely successor. Lithuania's dependence on Moscow's consent to fuel its factories, not to mention fill its treasury, underlies the country's energy and economic vulnerability. End Summary.

Oil Still Flowing

[1](#)2. (C) Mazeikiu Nafta General Director Nelson English (an Amcit oil industry veteran) March 21 discounted recent press reports to the effect that the Russian-owned pipeline monopoly Transneft would refuse access to its export pipelines to Mazeikiu Nafta, beginning in the second quarter. He said that Transneft informed his office that there is still "space in its pipeline" and that it intends to allow delivery of crude to the refinery for the rest of the year. English thought it "reasonably probable" that, beginning in April, the refinery will receive about two-thirds of its monthly crude nomination (600,000 tons). To date, they have received their full monthly quota of 800-830,000 tons.

Alternate Oil Suppliers

[1](#)3. (C) English stated that despite the sale of Yukos's largest production arm, Yuganskneftegaz, Yukos's Logistics and Crude Oil Group has met the company's supply commitments to Mazeikiu Nafta, mainly pooling resources from six to eight other Russian suppliers and with the assistance of Transneft. (The press reports that Lukoil, Rosснеft, TNK-BP, Sibneft, Slavneft, Surgutneft, and Tatneft are currently principal suppliers to Mazeikiu Nafta.) Mazeikiu Nafta receives a small portion of its crude from the Yukos subsidiary Samaraneftegaz. English expects Yukos Logistics and Transneft will continue to pull off this supply arrangement through the second quarter and beyond, although he observes from past experience that there may occasionally be disruptions, as occurred during an unanticipated supply interruption in February which halted production at the refinery for six days.

[1](#)4. (C) English stated that a Mazeikiu Nafta team will be in Moscow March 22 to discuss supply of the remaining 200-230,000 tons of the refinery's monthly crude oil nomination. He suggested that at least a portion of this amount may come in by rail.

Pipeline Still Open

[1](#)5. (C) Economy Vice Minister Nerijus Eidukevicius is more concerned with the flow than the source of the crude. He told us March 22 that Yukos has commitments with the GOL to bring in 4.8 million tons of crude annually. Transneft has authorized shipment of 1.8 million tons of crude through its pipeline during the second quarter. Eidukevicius, optimistic about supplies continuing, wouldn't speculate about future

sources of oil.

Yukos Pullout??

16. (C) Press reports quote a source close to Yukos as saying that the company is in informal talks with both TNK-PB and Lukoil. English professed ignorance on the subject of a

Yukos pullout. Eidukevicius claimed (disingenuously, we think, because TNK-BP was in Vilnius in January for discussions with the Government), that Yukos has not approached the GOL to sell, and absent a Yukos decision, the GOL's "thinking" on the issue is "limited." English noted his preference for a company with Western connections such as TNK-BP, rather than Lukoil, to minimize Kremlin manipulation. Lithuanian Energy Institute Chairman Jurgis Vilemas, a respected energy expert, told us he expected TNK-BP will most likely be the owner of Mazeikiu Nafta in the near future.

17. (C) Eidukevicius emphatically denied that Lithuania's oil supply issue in any way reflects Moscow's displeasure with President Adamkus's decision not to attend the May 9 celebrations marking the 60th anniversary of the Second World War. "If that were to be the case," he said, "Mazeikiu Nafta would not be getting any crude."

COMMENT

18. (C) Official Lithuanians are keeping mum about a Yukos pullout, scrambling to keep the fuel pumps going, but the writing is on the wall. While there appears no immediate threat to the oil supply, there is no guarantee from one day to the next. It's unclear how much longer Lithuania will be able to cobble together sufficient supplies, and at what cost -- political and financial -- with its principal supplier under Kremlin attack. Until now, substantial revenues for Russian companies and relatively good relations with Russia have secured the oil flow. The GOL will work hard to keep the oil coming.
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